The Report Committee for Michael David Ashby

Certifies that this is the approved version of the following report:

Market Feasibility Analysis of the Martin Luther King, Jr. Station Transit Oriented Development Zone

APPROVED BY

SUPERVISING COMMITTEE:

Supervisor: _____
Terry Kahn

_____
Ming Zhang

Market Feasibility Analysis of the Martin Luther King, Jr. Station Transit Oriented Development Zone

by

Michael David Ashby, BA

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Market Feasibility Analysis of the Martin Luther King, Jr. Station Transit Oriented Development Zone

Michael David Ashby, MSCRP

The University of Texas at Austin, 2013

Supervisor: Terry Kahn

The area surrounding Capital Metro's Martin Luther King, Jr. (MLK) MetroRail Station was designated a Transit-Oriented Development (TOD) zone and a plan was published in 2009. However, to date there has been very little development, and the development that has occurred is significantly different from what is called for by the plan. This report examines some of the difficulties of implementing TOD in Austin and the factors that could contribute to successful TOD projects. A market analysis of the MLK Station Area explores the economic feasibility of developing land there to its highest and best use. It concludes that the general dearth of TOD in Austin and lack of dense, mixed-use development in the MLK neighborhood make the kind of development called for in the MLK Station Area Plan excessively risky for developers. However, a more conventional multifamily development would be feasible, and increased station-area density could contribute to the success of future TOD.

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Research Question

Noting that development around Capital MetroRail's stations has not yet begun to follow the transit-oriented principles described in the station area plans and the City of Austin's TOD guidelines, this report examines some of the issues underlying the development process and, using Martin Luther King, Jr. Station as a test case, explores the market feasibility of TOD.

1. Introduction

Planning for passenger rail in Austin began some time before 1986, when the newly created Capital Metro and the City of Austin purchased a freight rail line from the Southern Pacific Railroad Company.[1] In 2000, a referendum was held on an ambitious $1.9 billion railroad proposal, but that plan was narrowly defeated. The plan was scaled back and presented to the public again in 2004 as the Red Line, and this time it passed.

The Red Line was intended to be a "starter line" that would eventually connect to areas that Capital Metro saw as likely to increase ridership, especially the Mueller Redevelopment Project and the University of Texas. The current Red Line misses those destinations, but because Capital Metro and the City of Austin already owned the right-of-way it occupies, it was relatively inexpensive to build. In addition, this route passes directly through East Austin, a part of town that has historically been economically depressed and stood to benefit from the construction of transit infrastructure.

Capital Metro began service on its first passenger rail line in 2010. The subject of this report, Martin Luther King Jr. (MLK) Station, is one of nine stations along that line, the second stop from the downtown terminus, and one of

[1] (Werner n.d.)

only three stations surrounded by Transit Oriented Development (TOD) zones. The MLK Station area was designated a TOD zone and its Station Area Plan was published in 2009. However, to date there has been very little development, and the development that has occurred is significantly different from what is called for in the plan. This raises a number of questions–has the introduction of the station and the TOD plan had any affect on the area? Has it impeded development that would have occurred otherwise? Are there other factors influencing growth in the area? Is there anything the City of Austin or private developers can do to spur growth?

Answering all of those questions may be beyond the scope of this report, but they are the issues that will be explored. This report will examine the qualities that contribute to the success of TOD, TOD's relationship with concerns such as population density and housing choice, and related issues such as affordable housing. The study is framed as a market feasibility analysis of the land surrounding MLK Station that is zoned for TOD, in order to explore whether development has not occurred due to (or in spite of) market forces.

2. Background

This chapter will explore some of the background issues pertinent to this study. The first section will deal with the purpose and general background of market and feasibility analyses. The second and third sections both address issues related to Transit Oriented Development (TOD)–the risks developers must accept when taking on TOD projects and the factors that support successful TODs, respectively. The last section briefly examines some of the issues behind affordable housing requirements and density bonuses, both of which exist in the plans and codes pertaining to the MLK Station Area.

2.1 Difficulties of TOD

The area examined in the market analysis that anchors this report is zoned for TOD, which is an exciting concept that could offer true benefits to the City of Austin in the future. However, in present-day Austin, more conventional factors than TOD status will likely determine a development's initial success. Large parts of Chapter 4's market analysis will therefore approach the proposed project in much the same way as any multifamily development.

There are many reasons that being designated TOD carries less weight in Austin than other cities. One of the biggest reasons is that Austin's transit system is not currently comprehensive enough to attract residents on its own. If

property value can be taken as a proxy for desirability, it is easy to observe that "[u]nless the transit system is well established and comprehensive–New York, Boston, Washington DC–the place more than the transit drives the development value."[2] In 2006, a survey of TOD residents across California was conducted to determine their reasons for choosing to live in TODs. It determined that "[w]hile some are moving to TODs for improved transit access, others are drawn to amenities such as lower-cost housing, local shops, or the overall living environment."[3] This study focused on three markets, specifically–the Bay Area, Los Angeles and San Diego–and found (unsurprisingly) that the more developed the transit system was, the more it was able to attract residents. Residents of the Bay Area, which has the most extensive transit system, were more likely to cite transit access as the reason for choosing their location than the other regions by a margin of more than 2-to-1 (Bay Area 52%, Los Angeles 19.3%, San Diego 24.8%). Further supporting the idea that this is because of the Bay Area's more extensive transit system is the fact that within the Bay Area itself, "transit access was a predominant location factor only along the heavy rail lines of the BART system,"[4] with respondents along light rail and commuter lines responding more similarly to the other regions.

[2] (Utter 2009, 214)
[3] (Lund 2006, 357)
[4] (Lund 2006, 361)

Simply polling people's opinions, however, may not give the most accurate picture of the housing market. First, Jarvis[5] demonstrates that preferences and residential locations often match up poorly. The neighborhood features that people find desirable do not always reflect the realities of the market. The larger issue, as identified by Boarnet in his critique of the methods used to analyze the relationship between land use and transportation, is that "[o]n net, we know little about preferences for particular neighborhood types. We know even less about whether such preferences are fixed or malleable."[6]

One of the specific findings from the Jarvis paper was that people do tend to reflect a preference for housing types dominant in their region,[7] e.g. people in San Francisco expressed a somewhat stronger preference for urban forms than people in Seattle, who tended to express a preference for single-family homes with yards. If housing preferences are malleable enough that they can be influenced by the choices available (rather than available choices being influenced purely by people's preferences), that has a huge effect on our understanding of the relationship between local regulations and the market. The book Zoned Out outlines the idea that the current housing landscape in America may be less a reflection of a market shaped by people's preferences than the inevitable outcome of inflexible zoning laws that favor low density development.

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[5] (Jarvis 2003)
[6] (Boarnet, A Broader Context for Land Use and Travel Behavior, and a Research Agenda 2011, 198)
[7] (Jarvis 2003, 598)

Transit-oriented development, however, requires certain levels of density in order to succeed. Boarnet and Crane[8] attribute the failure of TODs to the lack of residential density near the stations, which is due to local governments' economic motivations. They suggest that, at least in the case of Los Angeles, the forces that caused rail lines to be replaced by highways are still at work today, namely that "[m]ost major political actors viewed freeways as supporting economic development in their communities, while rail was perceived as supporting growth only in the downtown."[9] In a wider sense, they point out that communities, when acting for economic reasons, are not likely to zone for residential. Cities that are trying to leverage transit investments to increase revenues will favor commercial and industrial uses, which tend to generate budget surpluses, rather than residential, which tends to create deficits.[10]

2.2 Affordable Housing

Including affordable housing units in transit-oriented developments is a goal for many cities, but it is a challenge. Housing advocates rightly argue that affordable housing should be placed near transit facilities, as those who qualify for affordable housing will be those who benefit the most from access to public transportation. The catch-22 is that the very qualities that make a development transit-oriented, such as access to transit, walkability and a mix of uses, cause

[8] (Boarnet and Crane, L.A. Story: A Reality Check for Transit-Based Housing 1997)
[9] (Boarnet and Crane, L.A. Story: A Reality Check for Transit-Based Housing 1997, 193)
[10] (Boarnet and Crane, L.A. Story: A Reality Check for Transit-Based Housing 1997, 192)

land and housing prices to rise. Therefore, for affordable housing to be viable in these developments, or for these developments to be viable with an affordable housing component, cities must make considerable efforts.

There are a number of studies that verify a correlation between compact, walkable forms and rising land values (e.g. Rauterkus and Miller[11]). Higher land values, of course, offer some advantages–beyond being a general indicator of a healthy economy, they attract developers who can build at desirable density levels, and they increase tax revenues, incentivizing cities to invest in transit infrastructure. Unfortunately, they also significantly raise the cost of developing the land, which means that developers are more likely to resist affordable housing requirements, or avoid the area altogether. As cities also will be tempted to encourage development that maximizes revenue,[12] a successful affordable housing policy requires clear, effective policies.

Cervero and Duncan[13] find that while apartments near transit can command a price premium, this premium in land prices may in fact benefit cities that set up extensive value recapture policies. One example of a city using these policies is Portland, OR, which uses Tax Increment Financing (TIF) to fund a

[11] (Rauterkus and Miller 2011)
[12] (Boarnet and Crane, L.A. Story: A Reality Check for Transit-Based Housing 1997)
[13] (Cervero and Duncan, Benefits of Proximity to Rail on Housing Markets: Experiences in Santa Clara County 2002)

"Set-Aside Policy" for affordable housing .[14] Portland has also aggressively used public-private partnerships to develop its station areas, and the incentives offered in these partnerships typically come with affordable housing requirements attached. Portland and Austin both offer density bonuses that require meeting certain affordable housing standards. In theory, this should allow land values to rise, increasing tax revenues to the city, while still increasing affordable housing. Austin has instituted such a policy for the subject of this report, but so far it has not proven to be a successful strategy.

The U.S. Government Accountability Office released a study in 2009 that examined a variety of federal, state and local programs designed to facilitate affordable housing around transit.[15] (U.S. Census Bureau n.d.) It found that most federal and state affordable housing programs are location agnostic. That is, there are no requirements or incentives for developers or local governments to choose TOD properties over cheaper conventional properties. General affordable housing support is not particularly helpful for TOD, because it does not address the fact that mixed-use, accessible developments are more expensive. Therefore, developers who specialize in affordable housing, generally non-profits, may be unable to consider TOD areas, and look for cheaper areas to develop, instead. Furthermore, one of the major factors that make affordable housing financially viable are land donations. Those entities, public or private, who donate land to non-profits, are unlikely to donate transit-adjacent property if it is too valuable.

[14] (City of Portland n.d.)
[15] (United States Government Accountability Office 2009)

3. Methods

The methods of collecting and analyzing the data used in the analysis are described in this chapter. It is separated into three sections, based on the category of data–demographic data, city/maps data, and apartment data.

3.1 Demographic Data

Demographic data is used for a variety of purposes in the analysis. It is used to establish trends in the population of the market area and analyze projections based on those trends. It is also used to describe the economic condition of the market area, in particular income data and employment data.

The historical population data used in the analysis was obtained from the US Census Bureau[16] at the county level for Bastrop, Caldwell, Hays, Travis and Williamson Counties. Decennial, full count data were used. These five counties are referred to in the analysis as the Austin-Round Rock Metropolitan Statistical Area (MSA).

The population projections were taken from data published by the Texas State Data Center (TXSDC).[17] TXSDC data were used in spite of the fact that they produce projections considerably more conservative than historical trends

[16] (U.S. Census Bureau n.d.)
[17] (Texas State Data Center n.d.)

would suggest. Furthermore, their most aggressive projections for both 2000 and 2010 significantly underestimated the true population. However, the methodologies employed are generally considered sound,[18] and the validity of the analysis is not necessarily harmed by conservative estimates.

The data used to analyze the economy of the Austin-Round rock MSA were also obtained from the US Census Bureau but, unlike population data, this analysis generally uses American Community Survey (ACS) data. Whether 1, 3 or 5 year samples were used are cited in the analysis itself. Employment and income data are used to describe the state of the market area's economy. Employment data were collected at the county level, and include both the civilian and military labor force (although the military labor force is not a major factor in the Austin-Round Rock economy).

Two types of income data are used in the analysis–Median Household Income (MHI) and Median Family Income (MFI). MHI is generally treated as the primary economic indicator, but MFI is the indicator used for establishing affordable housing criteria. MHI data were obtained from the US Census Bureau using both decennial surveys and ACS data. MFI data were obtained from the US Census Bureau, Travis County,[19] and the US Department of Housing and Urban

[18] (Texas State Data center 2012)
[19] (Travis County Health and Human Services 2012)

Development (HUD).[20] All of these sources produce slightly different MFI levels, and these differences are noted in the analysis.

3.2 City/Maps Data

The data used to create the maps in this report were obtained from a variety of sources. Most of the data was taken from the City of Austin [citation], and the rest was taken from the US Census Bureau [citation] and Reference USA [citation] (the use of Reference USA data will be addressed in the next section).

Map shapefiles were obtained from the City of Austin and edited using ESRI's ArcMap 10.1. Shapefiles containing information about census tracts and block groups were obtained from the US Census Bureau and used for analysis, and were used to produce maps displaying information about population and income. In addition to the data downloaded from the city website, Map 2 describes data obtained from visiting and observing locations directly.

3.3 Apartment Data

The data used to describe the current supply of apartments were taken from business research firm Reference USA,[21] the City of Austin, the US Census Bureau, and a survey of advertised apartment prices.

[20] (U.S. Department of Housing and Urban Development n.d.)
[21] (Reference USA n.d.)

US Census Bureau data are used for determining the number of units, vacancy rates, and absorption rates. Data concerning the number of units, total and vacant, were taken directly from ACS estimates and used to calculate absorption rates. Absorption rates are often expressed in terms of the number of units the developer can expect to be leased per month,[22] but that data is typically proprietary and was not available for this report. Instead, the absorption rate presented here is expressed as a ratio calculated by dividing the total units absorbed (the number of occupied units minus the previous year's number of occupied units) by the number of new units. As a formula, it can be expressed as

$(O - O_{Previous}) / (U - U_{Previous})$

where O represents the number of occupied units in a given year and U represents the total number of units in a given year.

The data regarding the number and locations of apartments in Austin was obtained from Reference USA. The names and addresses of all of the businesses in Austin identified as apartments by their Standard Industrial Classification (SIC) code were collected, and mapped using ArcMap 10.1. Unsuitable data were removed from the list, because searching by SIC code returned some businesses that were related to apartments, but were not apartments themselves, such as apartment locating services. Furthermore, apartments that were non-profit or publicly subsidized were removed for certain parts of the analyses; these

[22] (Brett and Schmitz 2009)

instances are noted in the analysis. These data and maps were used to define the market area by various criteria, which are described fully in the following chapter.

Apartment pricing and rent data were taken from US Census Bureau Data, as well as a survey of publically available advertised rental prices. For each building or complex, the mean of the units with the highest and lowest costs per square foot were used. Special units, such as penthouses in high-rise buildings, were excluded. Low-income housing was also discarded from the sample. Because the survey relies on advertised prices, there are a number of notable limitations. First, only apartments advertising their prices were available to be sampled. Second, advertised prices may not reflect the actual prices being collected for rent. However, given that accurate apartment pricing data is not publicly available, advertised pricing is assumed to be a reasonable proxy.

This analysis includes four surveys conducted by the author–one to determined the median advertised price for all apartments in Austin, one to determine the median advertised price in central Austin, one to determine the median advertised price for apartments with access to the University of Texas campus, and one to determine the median advertised price for apartments within one half mile of Capital Metro's MetroRail stations. The sample size of each survey was selected to provide a 0.1 margin of error with a confidence level of

0.95, with the exception of apartments near MetroRail stations, of which there are so few every one was included in the survey. This means that for the 778 apartment businesses identified in Austin, the sample size taken was 86. For the 332 apartment businesses located in central Austin, the sample size taken was 75. And, for the 228 apartment businesses with access the University of Texas, the sample size taken was 68.

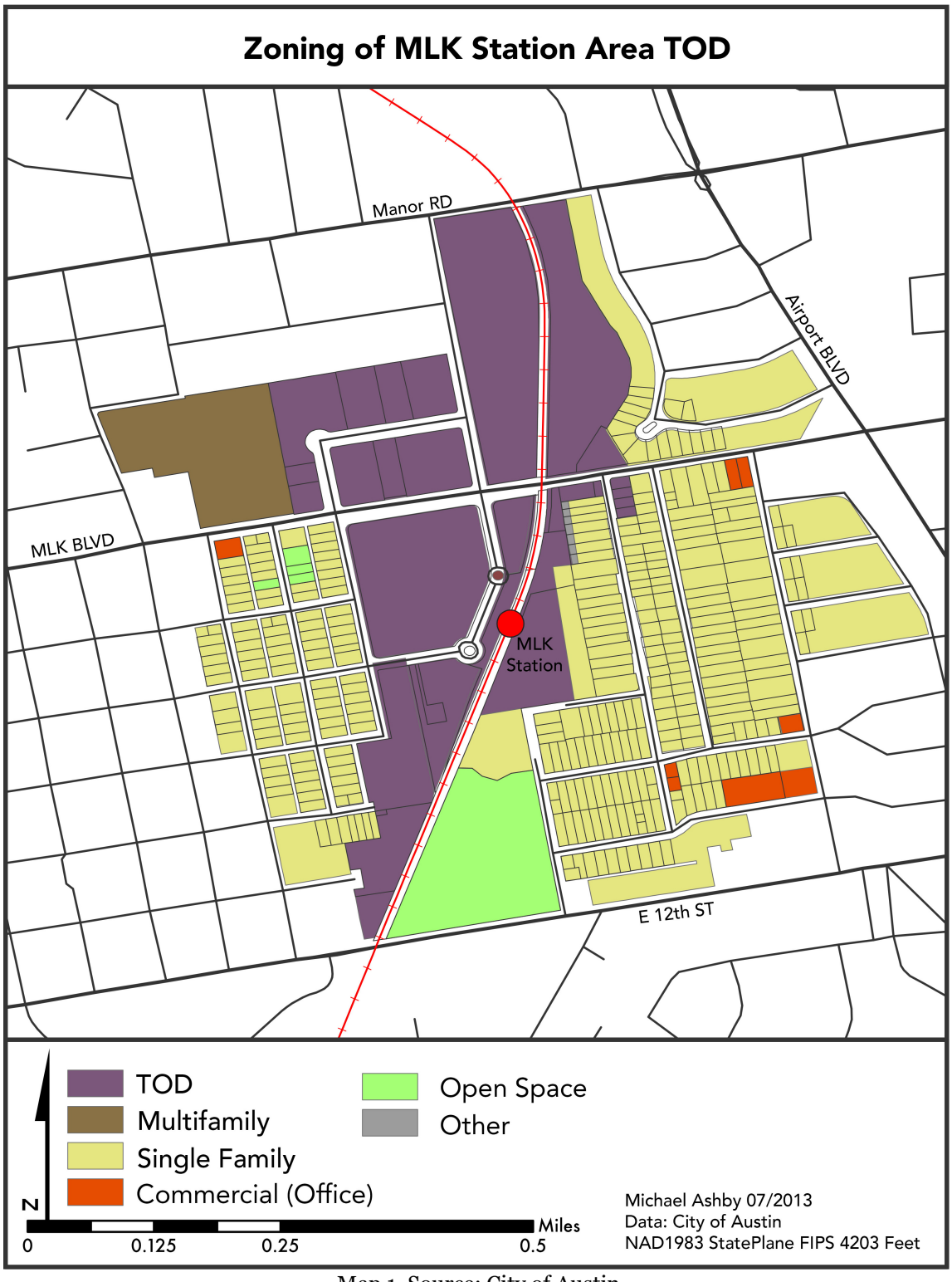
4. Market Analysis

There is little doubt that the multifamily housing business is growing in Austin–the steady flow of new apartment buildings provides ample evidence of that fact. However, the MLK Station area has not yet seen much benefit from the multifamily development boom. It is an area that remains largely unchanged in spite of significant transit infrastructure development, and in spite of the fact that it has been explicitly targeted for growth in a number of plans. This chapter will explore whether it is an undiscovered bargain for developers in the business of infill projects, or if some underlying issue leaves the neighborhood infeasible, or just undesirable, for development.

The analysis below approaches the potential for development in the area surrounding Capital Metro's Martin Luther King, Jr. (MLK) Station in three ways. The Project Description will outline the bounds and limitations of the study, describe potential projects and assess indirect economic factors related to the site. The Demand Assessment will examine demographic data and market trends to determine the demand for multifamily housing in Austin. Supply will be examined in the third section, Review of Multifamily Housing Supply, which examines the current multifamily housing stock and documented plans for future development.

4.1 Project Description

The bounds of this study are displayed on Map 1. They include all of the parcels zoned for Transit Oriented Development (TOD) within a half mile of MLK Station in East Austin. Although a variety of uses are permitted in areas zoned for TOD, this study focuses on multifamily rental housing because it is the most obvious use given the location and because, as is discussed below, there is a lack of true TOD in Austin that can be used for comparison. Therefore, when looking for comparable developments to examine, medium and large multifamily projects are used.



Map 1. Source: City of Austin.

4.1.a Assumptions and Limitations

This study requires an acceptance of certain assumptions and limitations. The first assumption is that recent market trends will remain reasonably consistent into the near future. The Austin-Round Rock MSA is among the fastest-growing regions in the country–its population has been doubling every twenty years since 1960 (see Table 1). Although it cannot continue to grow at that pace indefinitely, there are no indications that the trends will change dramatically in the immediate future.

Population of Austin-Round Rock MSA	
1930	192,123
1940	214,603
1950	256,645
1960	301,261
1970	398,938
1980	585,051
1990	846,227
2000	1,249,763
2010	1,716,289

Table 1. Source: US Census Bureau, Decennial Surveys

Furthermore, this report only considers projects by for-profit developers. There are many non-profit developers and subsidized multifamily developments in Austin with income requirements for residents. However, because they operate with a different set of advantages and constraints, and because their clientele is significantly different from the type of project proposed here, they are not considered direct competition and not included in the following analyses.

The greatest limitation of this study is the lack of similar products in the Austin market. Although there are some projects located in areas zoned for TOD, such as the Argosy and Midtown Commons apartments at Crestview Station, and neighborhoods with pedestrian and transit-supportive design concepts are beginning to appear (e.g. the Mueller Redevelopment), there are still no truly transit-oriented neighborhoods in Austin. Examining the performance of similar projects is usually among the most important parts of a market analysis, and being the first to attempt a new development type in an area is risky. Developers are trained, and rightly so, to follow the market rather than attempting to make it.[23] Therefore, the approach used here is to primarily address the proposed project's role as a multifamily housing development. It only needs to be successful in that regard to justify its worth as an investment, and other potential uses and opportunities will only enhance that value.

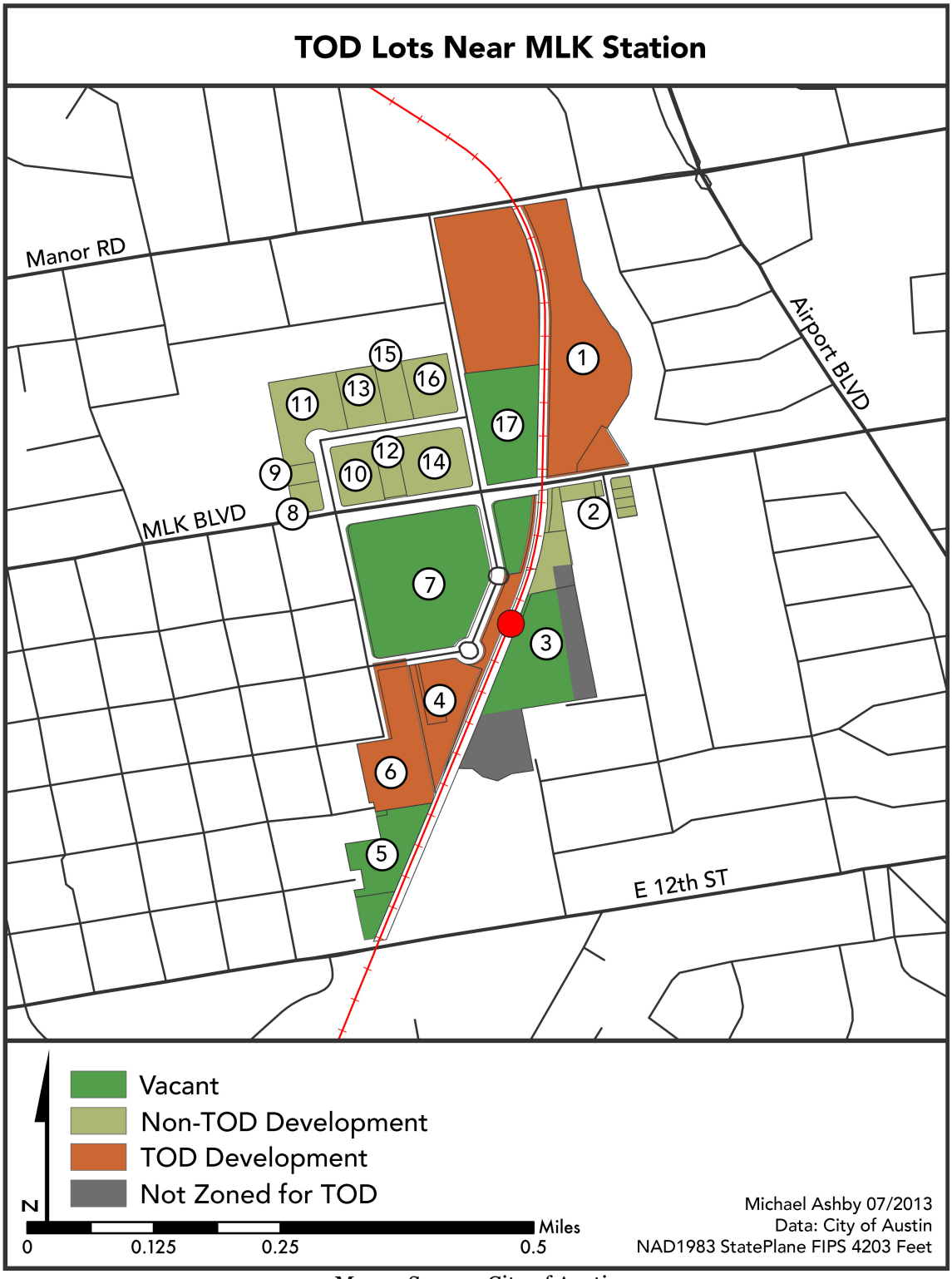
4.1.b Proposed Use

The MLK Station area has at least three empty lots with no currently submitted development plans, all located entirely within a quarter mile of MLK Station. These lots are labeled as numbers 3, 5, 7 and 17 on Map 2 (see page 22). One of the lots (number 17) is for sale by a private owner, and two are owned by Capital Metro (numbers 3 and 7). There are also a number of underdeveloped

[23] (Utter 2009, 209)

lots with low-density, non-TOD structures built on them, such as warehouses or small office buildings. These lots are identified on Map 2. All of the lots displayed on Map 2 are zoned for TOD, and there are no pending development proposals related to them that have been submitted to the city as of July 2013. While amenities such as swimming pools, fitness centers and recreation rooms are common in the Austin market, the zoning in this area offers a number of potential advantages unavailable to standard multifamily developments. These include compactness, walkability, access to transit, and proximity to shopping and entertainment.

While there is the potential for a development in this area to serve a number of other functions (e.g. retail or office), the most likely primary use is assumed to be multifamily rental housing. Comparable projects can be found throughout the Austin-Round Rock MSA, but three key aspects of this location are identified by which to more narrowly define the market area. These criteria will be discussed in greater detail in Section 4.3 (Review of Multifamily Housing Supply). The first and most important of these defining features are its proximity and access to downtown–approximately 12 minutes by car, 15 minutes by bus, or 9 minutes by train. Therefore, this report will examine comparable apartments within five miles of the downtown area (see Map 3, page 25).



Map 2. Source: City of Austin.

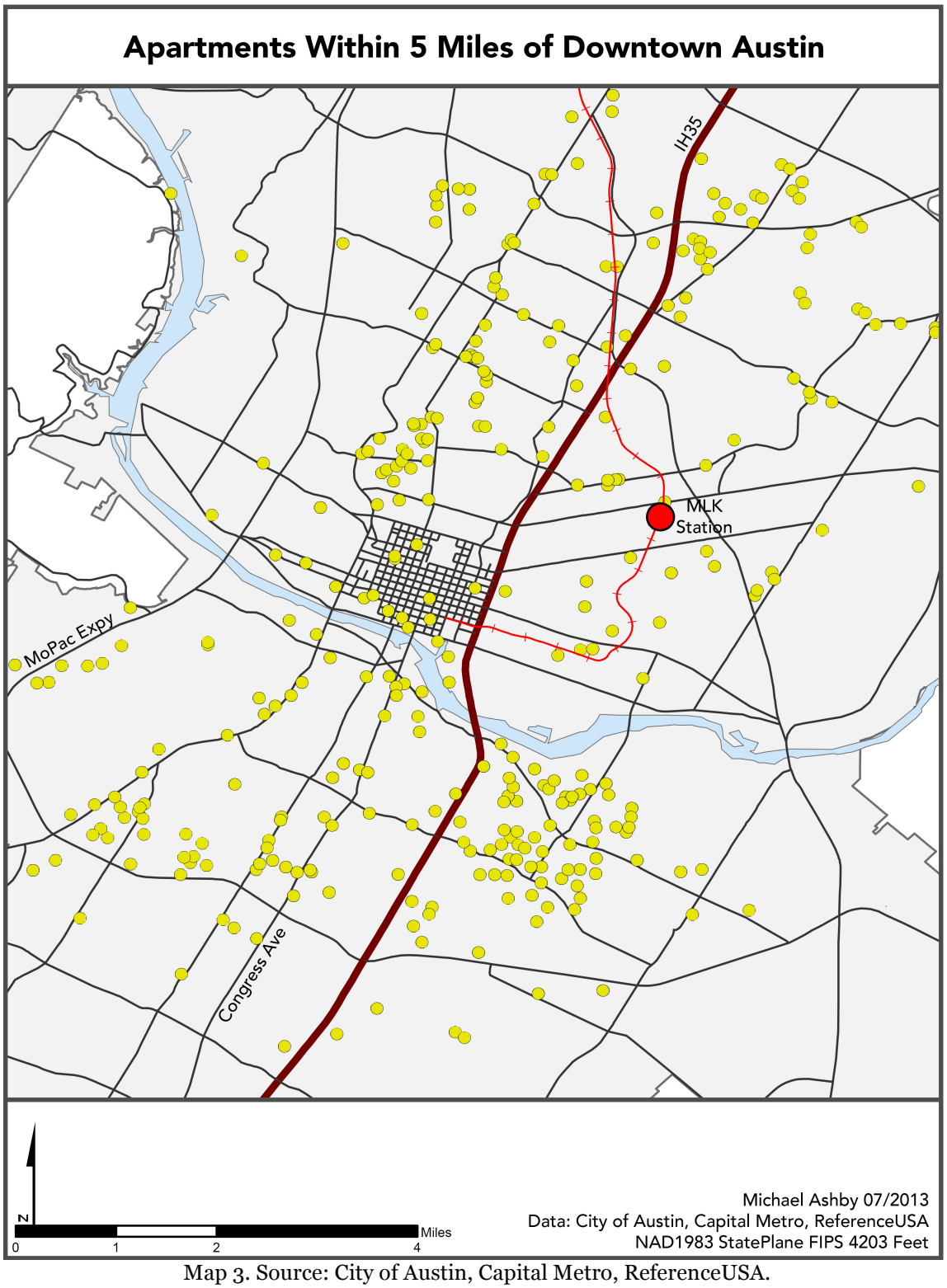
Its next most significant feature is its proximity and access to the University of Texas–only 6 minutes by car, 8 minutes by bus, or 15 minutes on a bicycle. While a number of surrounding areas have seen tremendous growth by catering to the students and employees of the University, such as North Campus, Manor Road, and especially West Campus, there is little to no student housing in East Austin south of Manor Road. For that reason, apartments with similar university access will be examined (see Map 4, page 26).

The third feature used in this analysis is the area's adjacency to a MetroRail station, and its consequent status as a TOD zone. However, this feature is somewhat problematic for two reasons. First, while this is the most interesting aspect of the area with the strongest potential for future growth, Austin currently lacks a truly comprehensive public transport system. This significantly limits the value of rail station proximity as an amenity. Second, there are very few existing developments similar to the MLK Station Area Plan's proposals with which to compare. For these reasons, this should be considered a minor but interesting feature, and apartments within a half-mile of MetroRail stations are included (see Map 5, page 27).

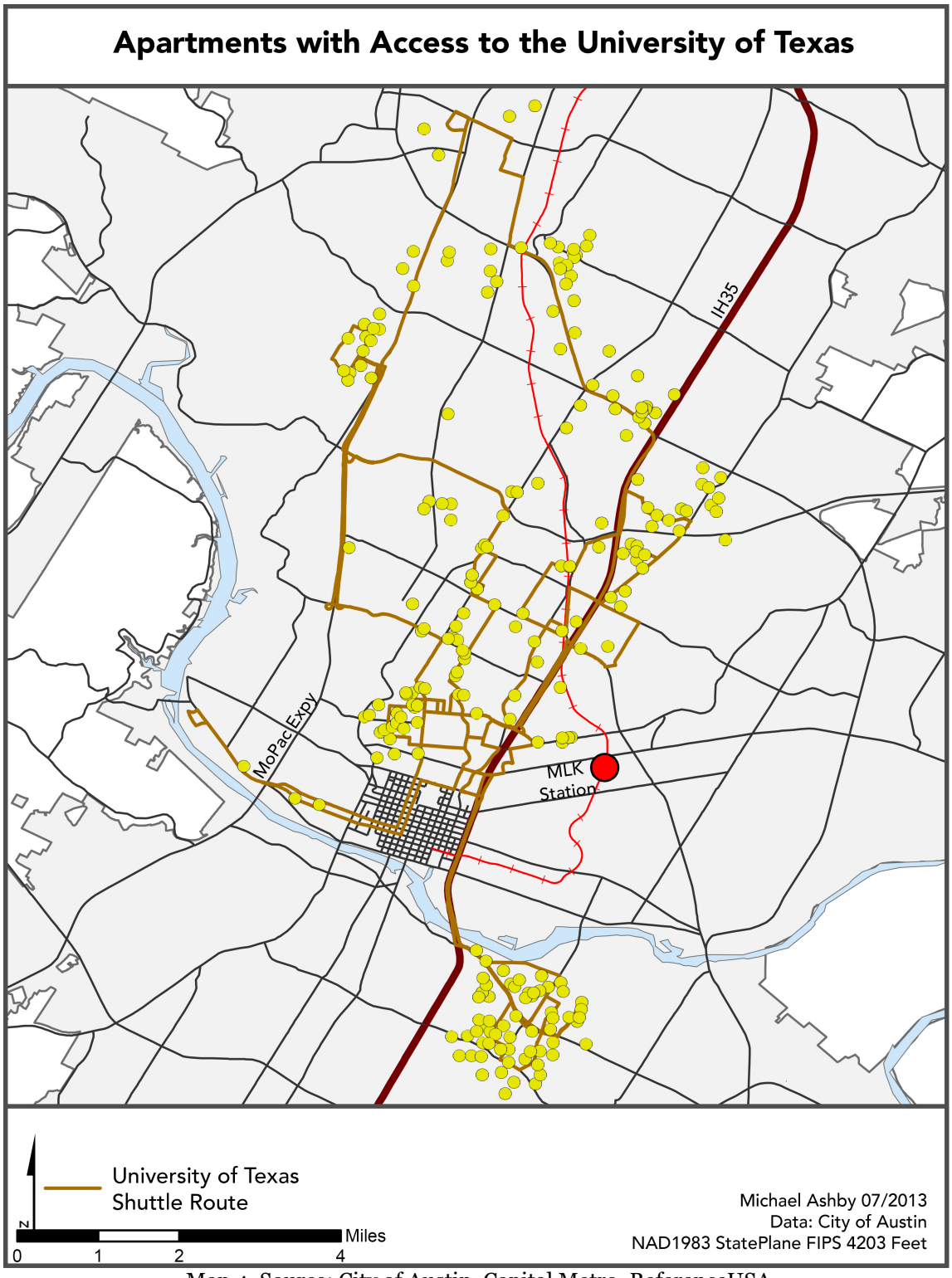
4.1.c Indirect Economic and Site Factors

There are a number of indirect factors specific to this area that will determine the highest and best uses, most of which are detailed in the MLK station plans. These factors include the zoning, affordable housing requirements, developer bonuses, parking requirements, and even public attitudes toward development in the area are detailed below. Other factors which are worth mentioning but not included in the station area plans include utilities, soil condition, topography and environmental concerns. Because this area is already well developed, extraordinary issues are unlikely. Utility infrastructure is already in place, and the area is not particularly environmentally sensitive. One issue of note, however, is that Lot number 3 (see Map 2) is partially located in the 100-year floodplain, so special consideration would have to be given in order to develop there[24].

[24] (City of Austin Watershed Protection Department n.d.)



Map 3. Source: City of Austin, Capital Metro, ReferenceUSA.



Map 4. Source: City of Austin, Capital Metro, ReferenceUSA.

Map 5. Source: City of Austin, Capital Metro, ReferenceUSA.

The permissive zoning of these lots is among their most valuable assets. The zoning in this area is intended to promote mid-rise, multi-use developments and is detailed in the MLK TOD Regulating Plan. The plan calls for a number of TOD subdistricts, but all of the lots in this analysis fall under the TOD Mixed-Use Subdistrict zoning rules. This is the highest-density subdistrict, and it is the only one with no minimum density for residential units, because developers are being allowed the flexibility to introduce a variety of uses. However, it does require a minimum of two stories, and the ground floor along "active edges," which are the edges that front major roads leading to the station, must accommodate non-residential uses.

Moderately high-density development is encouraged throughout the area, with the most intensive development being directed closer to the station. The MLK TOD plan calls for projects on these lots to be "urban-style development including active ground floor uses with commercial, office, or residential uses on the upper floors."[25] Zoning regulations allow a maximum Floor-to-Area Ratio (FAR) of 2:1, and a maximum building height of 40 ft, with a small area of lot number 7 (see Map 2) designated for a maximum height of 60 ft.

Furthermore, there is a density bonus system in place designed to allow greater intensity of use in exchange for developers providing more than the

[25] (City of Austin Neighborhood Planning and Zoning Department 2009, 6)

minimum 10 percent of total square footage in affordable housing units. If affordable housing requirements are met, the FAR and height limits may be waived. Because the affordable housing requirements do not appear to be especially onerous, as will be discussed below, aggressively pursuing density bonuses would be advantageous to developers. However, the plan specifies neither how much additional affordable housing is required to trigger the waiver, nor where the new height and FAR limits would be set. The specific details involved in obtaining FAR and height limit waivers would need to be negotiated with the City.

All of the lots in question (see Map 2, page 22) fall within either the Rosewood Neighborhood Planning Area or the Chestnut Neighborhood Planning Area. The plans for both areas are out of date, adopted in 2002 and 1999 respectively, and are partially superseded by the MLK plan. However, even before the existence of MLK Station, both plans mention these sites specifically as places residents would like to see mixed-use developments.[26][27] Therefore, while there may be some concern about making sure edges that border single-family homes are not disruptive to the character of the neighborhood, there is likely to be little resistance to a fairly intensive use of the land.

[26] (City of Austin Planning and Development Review Department 1999)
[27] (City of Austin Neighborhood Planning and Zoning Departent 2001)

Issues that will be of particular concern to developers are the affordable housing requirements, density bonus system, and parking requirements. The MLK plan mandates that 25 percent of total square footage be dedicated to affordable housing, which is defined as units that rent for less than thirty percent monthly of "households earning no more than 60 percent of the Annual Median Family Income for the City of Austin Metropolitan Statistical Area as determined by the Director of the Neighborhood Housing and Community Development Department (NHCD)."[28] However, the plan divides the financial responsibility between the developers and the City. Developers are only required to provide 10 percent of total square footage for affordable housing, with the City providing the other 15 percent in the form of rent subsidies. The Median Family Income of the Austin MSA is relatively high at $74,285[29], which means developers must allocate ten percent of residential square footage to units that rent for roughly $1,115 or less.[30] Given that the median advertised rent for apartments in central Austin is $1.38 per square foot (see below), developers could rent an 800 square foot unit at market rate and still be priced below affordable housing requirements.

The parking requirements in the MLK TOD area are much lower than in traditionally zoned areas. This is important in terms of determining how much space to allot for parking, whether a parking structure will be necessary, and how

[28] (City of Austin 2009, 56)
[29] U.S. Census Bureau, ACS 2007-2011 5-year estimates
[30] HUD defines MFI for the Austin MSA as $75,900. Travis County Health and Human Services defines it lower at $73,200.

buildable space will be affected by parking encroaching on the maximum impervious cover ratio. The minimum parking requirements are sixty percent of those established in the Austin Land Development Code (LDC). This means, depending on the mix of unit types (required parking for residential uses is determined by the number of bedrooms), the developer will be required to provide approximately 41 spaces per acre when building at maximum density.[31] This is in addition to any spaces that would be required by non-residential uses. However, there are many opportunities to reduce this obligation. For example, developers may count on-street parking spaces toward their minimum parking requirements. Additionally, there are a number of options to further reduce parking requirements by a maximum of 50 percent, including shared parking arrangements, bicycle parking, tree preservation, shower and locker provisions for cyclists, and providing vehicles for car-share programs. These additional options must be negotiated with the Director of the Public Works Department.

4.1.d Best and Highest use

The best and highest use, without factoring in the possibility of further density bonuses, would be a four story building with a 2:1 FAR at 45 units per acre. A 2:1 FAR allows 87,120 square feet per acre, which is more than can realistically be divided into 45 units, so plenty of potential floor space would be left for other uses, such as retail or office.

[31] (City of Austin Planning and Development Review Department n.d., §25 Appendix A: Tables of Off-Street Parking and Loading Requirements)

4.2 Demand Assessment

This section of the analysis will examine demographic data to determine whether demand for multifamily rental housing exists in Austin. Primarily, it will examine population trends in the region to determine whether growth is likely to be strong enough to ensure absorption of all units. In addition to regional trends, demographic data specific to the MLK Station area will be presented. It will also examine economic factors such as employment and income for the region as a whole and for the MLK Station area in particular.

4.2.a Population

Austin is among the fastest-growing cities in the country, and growth is expected to continue at least through the next two decades. Table 2 (next page) shows the population growth in the region since 1930 and the Texas State Data Center's (TXSDC) projections to 2035. TXSDC produces population projections using three scenarios that vary the inmigration and outmigration rates, while maintaining that population changes due to fertility and mortality will remain relatively constant. The most conservative scenario assumes there will be no inmigration going forward, the middle scenario assumes that inmigration and outmigration rates will be half of what they were from 2000-2010, and the most aggressive scenario, the "1.0" scenario, assumes that migration will continue at the 2000-2010 levels. This report uses TXSDC's "1.0" scenario because, even

though it is TXDC's highest projection, it is still remarkably conservative given the growth pattern of the region over the last century. Furthermore, for the purposes of this report a conservative projection is acceptable, or even desirable. This report only needs to establish whether a given site's best and highest use will be feasible in a projected market. If it is able to do so under restricted conditions then the developer may proceed with confidence.

Population of Austin-Round Rock MSA, Historical and Projected			
1930	192,123	2000	1,249,763
1940	214,603	2010	1,716,289
1950	256,645	2015	1,998,629
1960	301,261	2020	2,322,988
1970	398,938	2025	2,680,481
1980	585,051	2030	3,056,608
1990	846,227	2035	3,520,838

Table 2. Source: US Census Bureau, Texas State Data Center

The region as a whole will almost certainly continue to grow over the next few decades, but one recent trend is that Austin's share of total growth is decreasing (see Figure 1, next page). In 1990, Austin comprised 55 percent of the total population of the MSA, and 81 percent of the population of Travis County. By 2010, those numbers had decreased to 46 and 77 percent, respectively. While the areas immediately adjacent to Austin are undoubtedly growing faster than the central city itself, that should not be construed to mean that Austin itself has not continued to grow. Table 3 shows Austin's growth since 1990 and its projected growth based on the conservative TXSDC estimates.

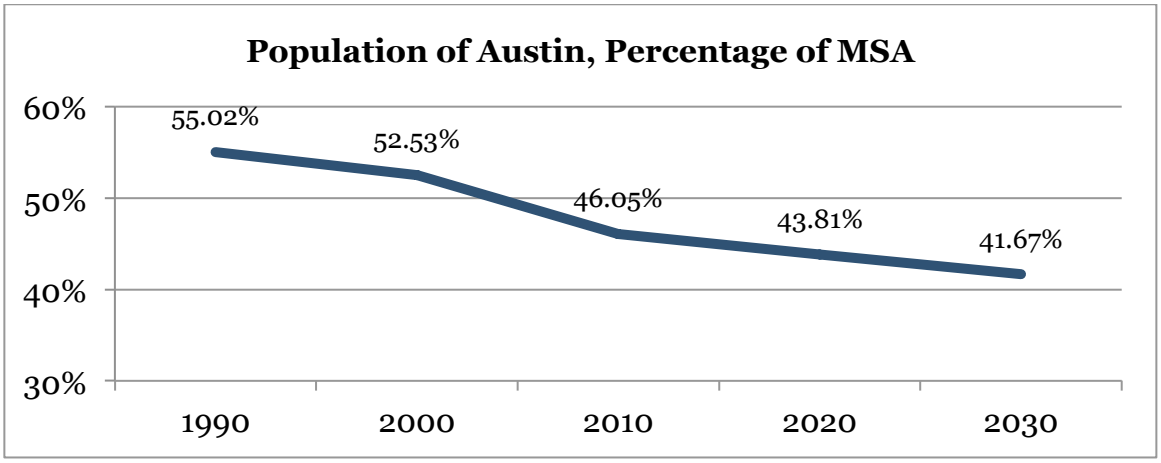


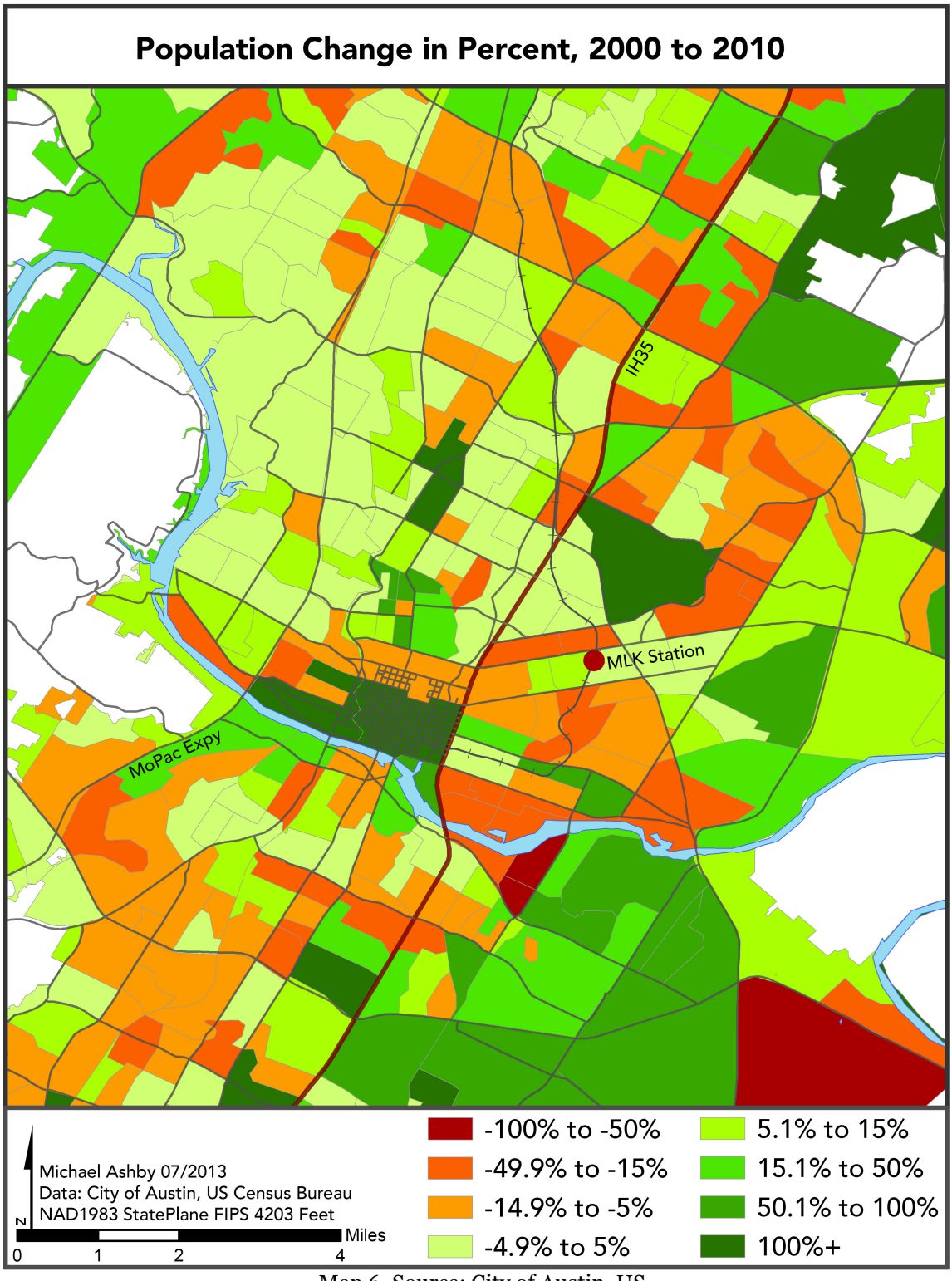
Figure 1. Source: US Census Bureau, Texas State Data Center

Population of Austin, Historical and Projected			
1990	465,622	2020	954,059
2000	656,562	2025	1,031,045
2010	790,390	2030	1,097,675
2015	870,219	2035	1,160,022

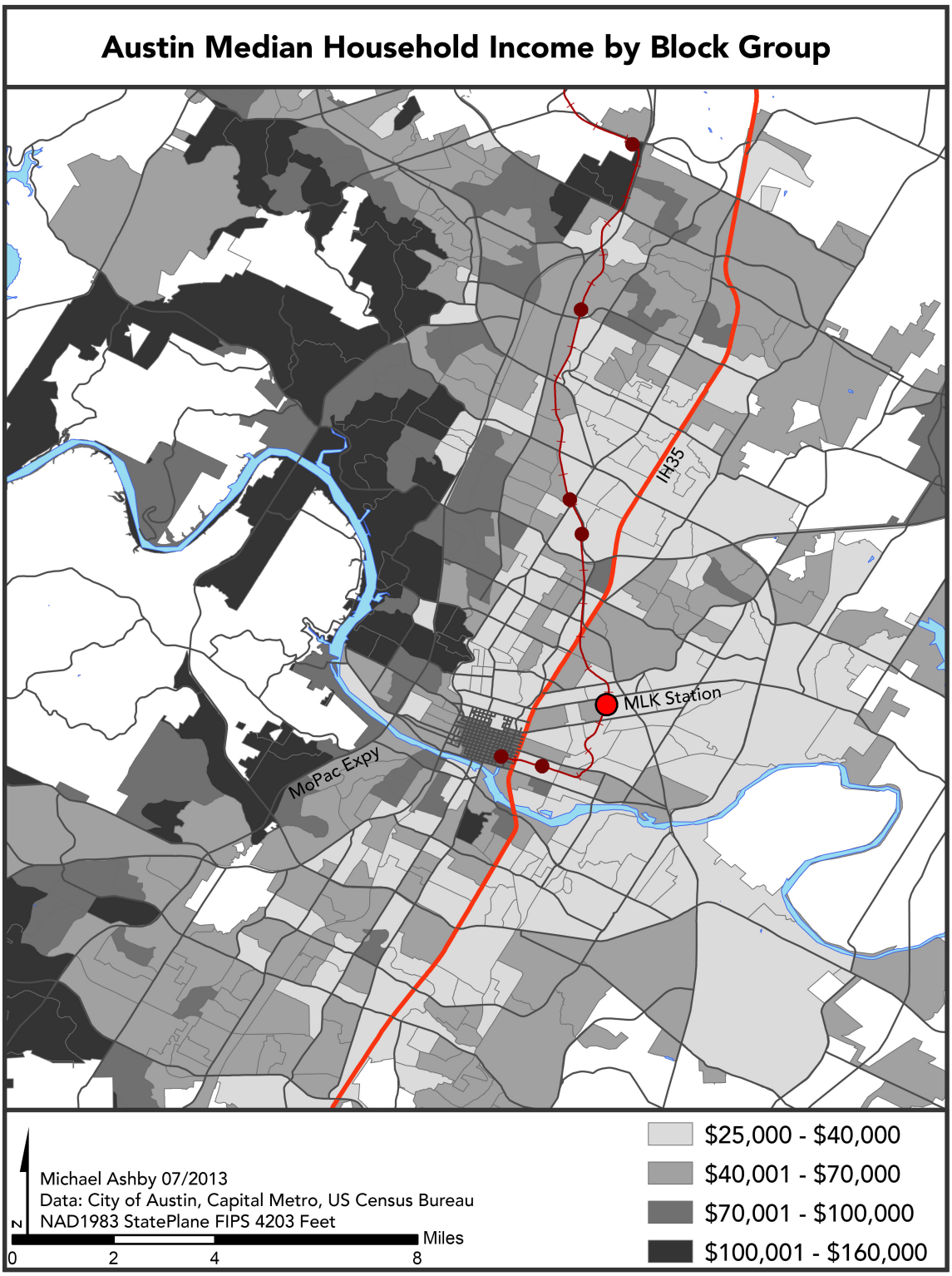
Table 3. Source: US Census Bureau, Texas State Data Center

4.2.b Economy

A high employment rate is another advantage of the Austin-Round Rock MSA. Figure 2 (page 38) shows that unemployment rates in the region have been lower than both the US and Texas every year since at least 1980. This includes the period from 1990 to 2000, when unemployment was higher in Texas than the nation as a whole. Even during the recent economic downturn, when unemployment rates spiked, it remained relatively low in Austin. Furthermore, the two areas with the greatest concentrations of jobs in Austin are downtown and the University of Texas, both of which are easily accessed from MLK Station.



Map 6. Source: City of Austin, US


Austin Median Household Income by Block Group
IH35
MLK Station
MoPac Expy
Michael Ashby 07/2013
Data: City of Austin, Capital Metro, US Census Bureau
NAD1983 StatePlane FIPS 4203 Feet
N
Miles
0
2
4
8
$25,000 - $40,000
$40,001 - $70,000
$70,001 - $100,000
$100,001 - $160,000

Map 7.

The Austin-Round Rock MSA is a high-income region in comparison with the rest of the State of Texas and the US as a whole. The 2011 ACS three-year estimate of median household income (MHI) for the area is $57,839, compared with $52,762 for the United States and $50,920 for Texas. As shown on MAP 7 (page 36), East Austin has noticeably lower MHIs than West Austin. The areas immediately surrounding MLK Station fall into the $30,000-$50,000 range, which is significantly lower than the MHI for the region as a whole.

However, it should be noted that due to city policies encouraging growth in the area, new projects, such as the Mueller Redevelopment, and new multifamily developments (which will be discussed below), this is a rapidly changing part of the city. Notice especially the strong relationship between population growth (on Map 6) and higher MHI (on Map 7) in East Austin. When comparing these high growth areas to the site proposals displayed on Map 8 (page 46), it becomes apparent that East Austin is benefitting from new development, and new development is successfully attracting residents.

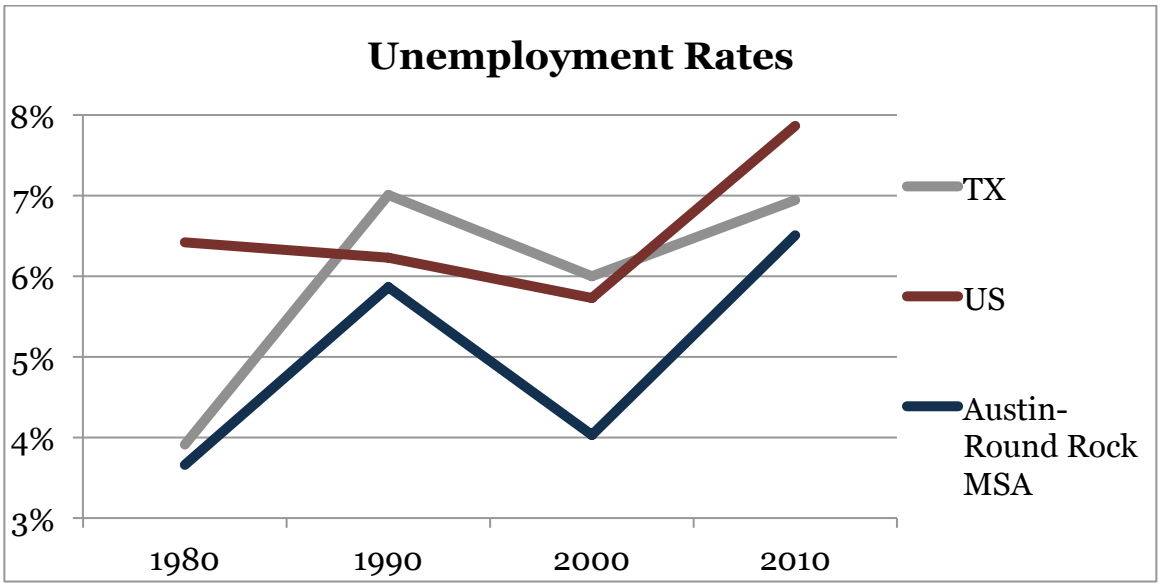


Figure 2. Source: US Census Bureau

4.3 Review of Multifamily Housing Supply

In analyzing the multifamily housing supply available in Austin, this study examines apartments available for rent in central Austin, with access to the University of Texas, and along the MetroRail Red Line, as described in Section 4.1.b. and similar projects that are currently being developed.

4.3.a Existing Supply

A simple search of apartments in Austin using ReferenceUSA, which uses US Census SIC codes to collect data on businesses in a given area, turns up 788 developments. This includes apartment buildings and complexes, but excludes private apartments or homes for rent. However, to better represent market conditions, this data should be disaggregated and categorized into the specific

markets where this project might compete. These results are therefore further refined into three categories–apartments in central Austin, apartments primarily serving the housing needs generated by the University of Texas, and existing TOD housing along the Capital MetroRail Red Line.

Central Austin, defined as being within five miles of the Capitol Building (See Map 3, page 24), contains 312 developments. University-supportive apartments, defined here as apartments within a half-mile of the University of Texas Campus or a stop along a university shuttle line (see Map 4, page 25), comprise 221 developments. There are only 12 multifamily developments within a half-mile of Capital Metro's train stations (See Map 5, page 26), with 4 of them being downtown and thus likely sited without regard to the train line. Currently, there are no other for-profit multifamily housing developments near MLK Station.

4.3.b Vacancy rate

The most current vacancy data available from the US Census Bureau is from 2011, but the data from 2005 to then show a distinct trend of decreasing vacancy (see Figure 3, next page). This could partly be explained by the housing crisis that led to and followed the 2008 recession, but it does not seem to account for the overall trend. If the decline in rental vacancy rates were simply due to former homeowners losing their houses, that would be of significant concern to

developers because as the housing market recovers one would expect rental vacancy rates to rise to their previous levels. However, if that were the case, one would also expect to see a close inverted relationship between rental and owner-occupied vacancy rates, which is simply not present in the data. While owner-occupied vacancy rates increase and decrease from year to year, rental vacancy rates have steadily declined with one surprising exception–the 2009 data shows a slight increase in the rental rate over 2008 (though still well within the ACS's margin of error), and this is the very year one would most expect to see rental vacancy rates decline if they were closely linked to the housing crisis.

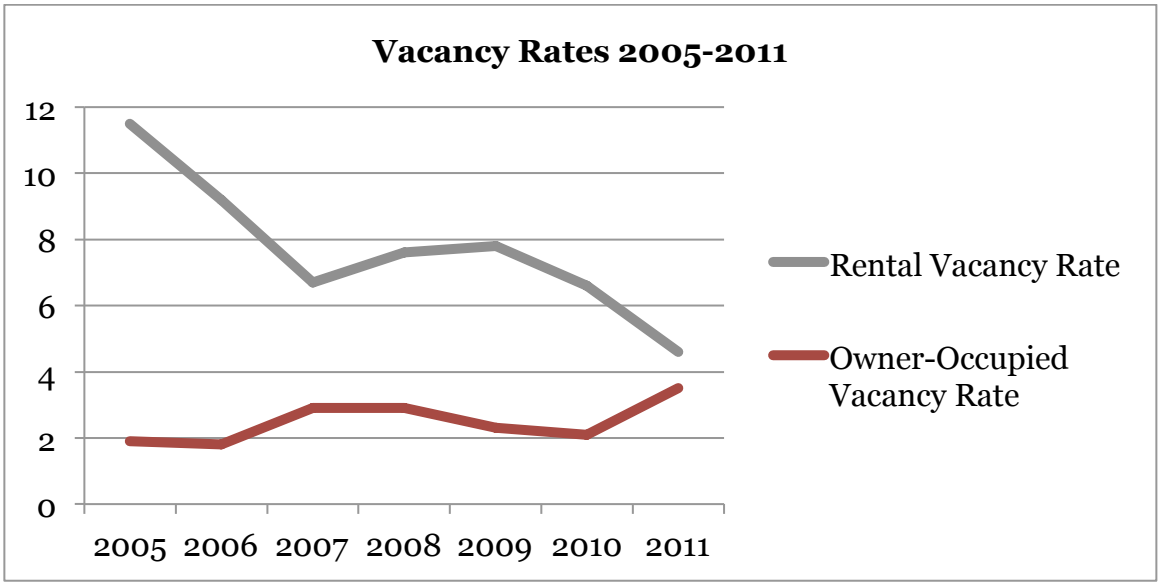


Figure 3. Source: US Census Bureau, American Community Survey 1 Year Estimates.

4.3.c Absorption rate

This report examined the absorption rates for the City of Austin as a whole. From 2005-2011, absorption rates have been significantly higher than

100 percent every year except 2008-2009, when the market was disrupted (see Table 4). The vacancy rate across the City of Austin (calculated by dividing the number of units occupied by the total number of units, see Figure 3 on the previous page) has decreased every year, as the production of new units has fallen significantly short of demand year-over-year. If this trend continues, developers can expect faster than average absorption of most units. For comparison, see the absorption rates for the State of Texas as a whole (Table 5), which has been considerable more volatile and only twice exceeded a value of 1.

Absorption, City of Austin, 2006-2011					
	Number of Units	Units Occupied	New Units	Total Absorption	Absorption Rate
2006	185,341	168,083	3,692	7,382	1.999
2007	191,087	178,127	5,746	10,044	1.748
2008	192,971	178,101	1,884	-26	-0.014
2009	206,627	190,388	13,656	12,287	0.900
2010	210,715	196,726	4,088	6,338	1.550
2011	215,461	205,422	4,746	8,696	1.832

Table 4. Source: US Census Bureau, American Community Survey 1 Year Estimates.

Aborption, State of Texas, 2007-2011					
	Number of Units	Units Occupied	New Units	Total Absorption	Absorption Rate
2007	3,217,702	2,870,498	70,557	52,155	0.739
2008	3,299,230	2,956,395	81,528	85,897	1.054
2009	3,474,019	3,097,238	174,789	140,843	0.806
2010	3,566,209	3,182,761	92,190	85,523	0.928
2011	3,621,532	3,282,070	55,323	99,309	1.795

Table 5. Source: US Census Bureau, American Community Survey 1 Year Estimates.

4.3.d Trends in Rental Prices

As rental vacancy rates have decreased, the cost of rent has gone up accordingly. Since 2005, the median gross rent of the Austin-Round Rock MSA has steadily risen–more than twenty percent over six years (see Figure 4, next page). This is a continuous trend, except for the disruption in 2008-2009 likely due to the economic crisis.

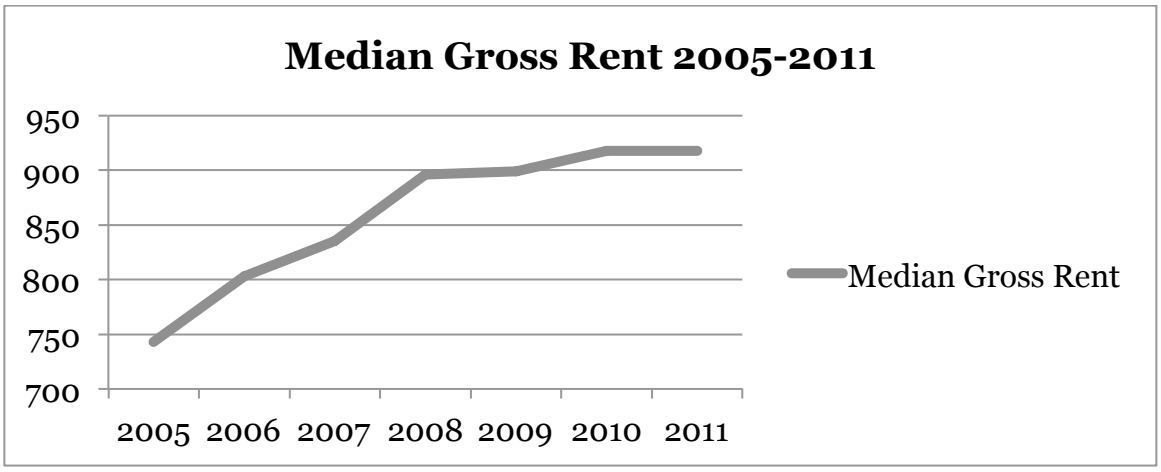


Figure 4. Source: US Census Bureau, American Community Survey 1 Year Estimates

True rental pricing data is generally proprietary and was not available for this report. Instead, advertised rental prices were surveyed as described in Section 3.3. The median advertised price for apartments in Central Austin (Map 3) is $1.38 per square foot, or $1.35 per square foot when excluding downtown apartments which are unrepresentatively expensive. The median advertised price of the multifamily developments with university access (Map 4) is $1.25 per

square foot. The median advertised price of the 8 multifamily developments near MetroRail stations not located downtown (Map 5) is $1.10 per square foot.

4.3.e Planned Multifamily Supply

The City of Austin demographer publishes a quarterly report on multifamily development. The most recent report, which covers through the end of the first quarter, 2013, indicates that there are currently 15,750 units under construction with a further 9,360 in approved site plans. Just in the first quarter, 31,000 units divided among 12 projects began construction, 25 new proposals were submitted, and 9 projects carrying 1,100 units received approval.[32] Figure 5 is excerpted from this report, and puts those numbers in context. Map 8 (page 46) displays the location of all approved site plans as of July 2013. It should be noted that there are several proposals in the pipeline for East Austin, but currently there are no pending proposals in the MLK Station area.

[32] (City of Austin Multifamily Report 2013)

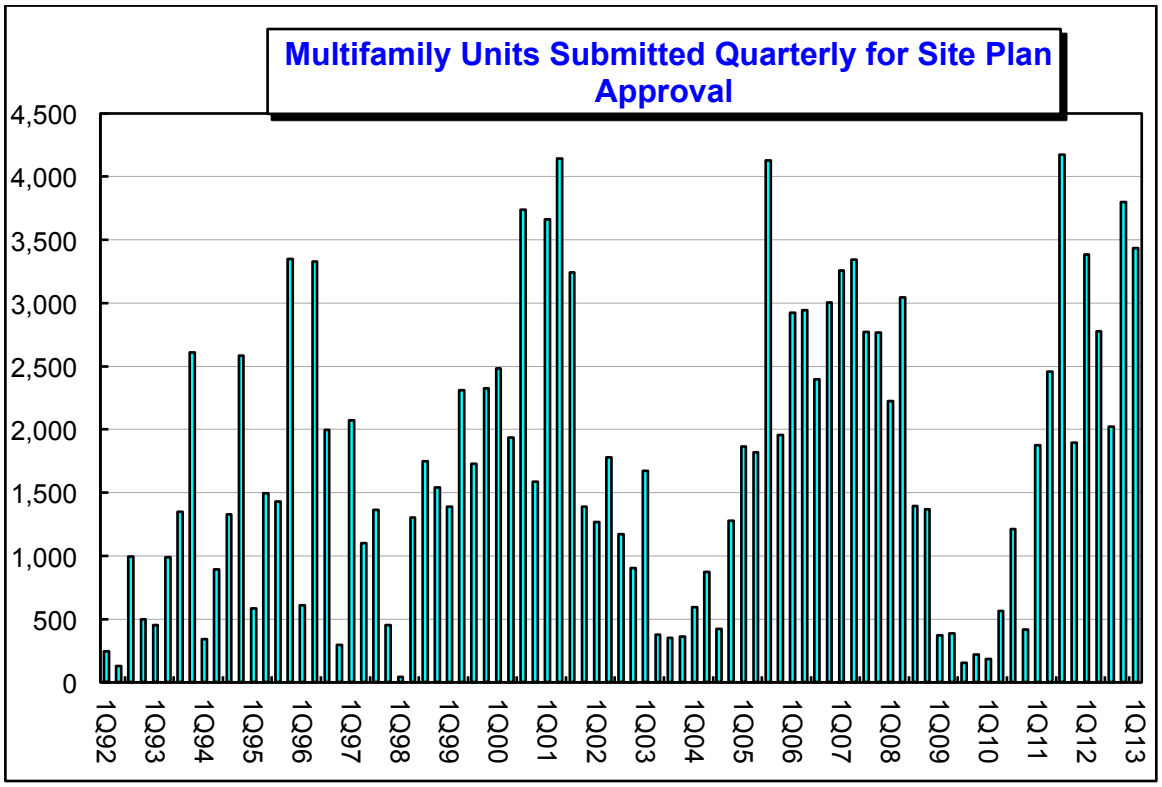


Figure 5. Source: Austin City Demographer

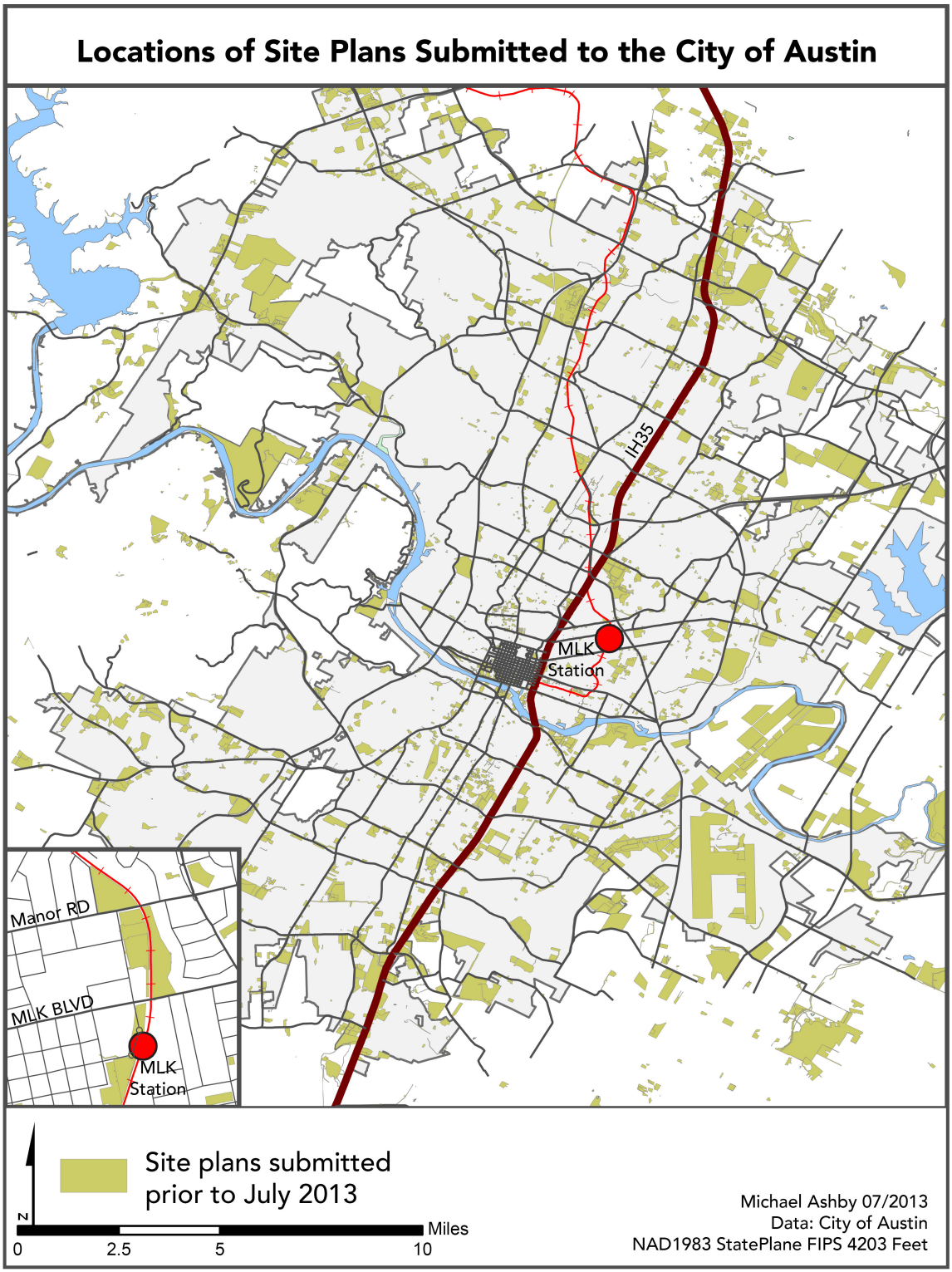
4.4 Synthesis

East Austin has historically been economically disadvantaged, and has seen little development. The MLK Station Area Plan has spurred some activity, but this recent development has been mostly performed by non-profit organizations. Because of this, and because of the general lack of comparable development in Austin's other TOD zones, there is little indication of how a market rate project would fare. Any developer attempting large-scale development here would be taking a greater than normal risk.

The area also has space available for development. There are several vacant lots, two of which are in prime, station-adjacent locations (see Map 2, page 21). Furthermore, the majority of the occupied lots are currently underdeveloped, having been "up-zoned" to TOD recently.

There are a number of incentives for developers to build in the area. These include the investments in transit, zoning laws that encourage intensive development, and density bonuses among others. The affordable housing requirements are not difficult to meet, and will likely be made up for in density bonuses. The affordability requirements for the Mueller Redevelopment are as stringent, but have not hampered development there.

Development is increasing in East Austin, and the City of Austin is promoting it. The MLK Station area is a better site than most due to its proximity and transit connections to downtown, which is one of the greatest concentrations of employment in Austin, and the University, which is the largest concentration of employment and one of the greatest drivers of housing demand in Austin. While the densest possible mixed-use development may be too risky for many developers and lenders, a medium-to-high density multifamily development would be a very reasonable investment.


Locations of Site Plans Submitted to the City of Austin
IH35
MLK Station
Manor RD
MLK BLVD
MLK Station
Site plans submitted prior to July 2013
N
0
2.5
5
10
Miles
Michael Ashby 07/2013
Data: City of Austin
NAD1983 StatePlane FIPS 4203 Feet

Map 8.

5. Conclusion

The MLK Station Area Plan is ambitious in its vision and admirable for its efforts to mitigate some of the negative effects of gentrification, i.e. through its affordable housing policies. The City of Austin has made infill development a priority, and the MLK Station area is surrounded by a changing East Austin landscape.

However, the MLK Station area does not look very much like the plan's vision and does not appear to be moving in that direction. In fact, none of the TOD zones near MetroRail stations have attracted the dense, urban development envisioned in the City's TOD plans, even while mixed-use development is becoming more popular across Austin. If the assumption that more comprehensive transit systems have a greater effect on development patterns is true, the presence of Capital Metro's Red Line may not yet be as significant as more traditional development factors, such as location, economy and demographics.

According to the literature on the subject, there are steps the City of Austin could take to better encourage TOD. First, the City should encourage residential density as a stepping-stone to making the kind of development it wants more appealing to developers. The conclusions of Chapter 4's market analysis–that a

primarily residential, medium-high density (35 to 45 units per acre) could be successful at this location–are compatible with this recommendation. By focusing on residential density near transit infrastructure, even if it means forgoing more lucrative land uses in the short term, the City can increase ridership, which makes the transit system more valuable and can eventually justify the higher development costs to businesses and employers.

Furthermore, the public transit network must continue to expand, and expansion must be accompanied by land use that accommodates a mix of uses–residential, shopping, entertainment, employment–so that people will see it as a useful amenity and a worthwhile public investment. This is what has allowed the success of TOD in places like Portland, the Bay Area, and the Rosslyn-Ballston Corridor in Arlington, VA, as well as outside the US, as in Europe and Asia.

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